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Chiang Responds to State of the State Address

SACRAMENTO – State Controller John Chiang today issued the following statement regarding the Governor’s State of the State Address:

“We need to stop the boom or bust budgeting. You see that kind of volatility on Wall Street – we should not see it in the State Capitol.

“We need an insurance policy to guard against cuts to public programs. Californians do not like it when we are charitable one year, and cheap the next. I have long supported a rainy day fund for use in tough fiscal times. But we must target what makes the budget flush with cash one year, and drowning in red ink the next.

“The single largest cause of our budget woes is the volatility of the revenue stream. California’s tax structure relies heavily on the personal income taxes paid by our wealthiest residents. The fluctuations in the taxes are tied to capital gains and dividends that are realized by our wealthiest income earners. And that goes up and down, depending on the market.

“To illustrate the volatility, more than 53 percent of the total General Fund revenue comes from personal income taxes. In 2005, income from capital gains totaled \$111 billion, and the top five percent of taxpayers were responsible for \$100 billion of that total. Three years earlier, income from capital gains totaled only \$33 billion, and the top five percent of taxpayers paid \$30.4 billion of the total amount.

“As chair of the Franchise Tax Board, I have asked for their staff to work closely with my office to study how we can hold these volatile funds in the good years for use as an insurance policy in times like this.”

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